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# *PwC Georgia Tax & Law Brief*

*15 May 2018*

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## **Important Amendments to the Order №49/04 of the National Bank of Georgia**

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Starting from 7 May 2018, new requirements apply to commercial banks while issuing loans to customers. According to the amendments:

### *Complete Assessment of Creditworthiness*

- Banks shall assess customers' (individuals, legal entities, organizations that are not legal entities) creditworthiness (income, expenditures, total liabilities) and all additional factors that might negatively affect customers' liabilities. For the purposes of the assessment, banks shall request and obtain respective documents such as a payroll statement from bank accounts, a certificate from the Revenue Service and other reliable documents. These documents shall be updated final versions and their limitation period shall not exceed 6 months from a loan approval (from the moment when a decision on issuing a loan is made).
- Banks shall conduct a detailed financial analysis of a customer with respect to revenues derived from customer's business activities.
- The total amount of loans issued without assessment of creditworthiness, shall not exceed 25% of a bank's supervisory capital. This restriction does not apply to the loans secured by precious stones and metals or immovable property within the value of such securities.
- The order defines "Loan to Value Ratio" (LTV coefficient), which refers to the ratio of loan(s)/credit(s) secured by immovable property to the market value of such security.
- The total amount of loans secured by immovable property and issued without assessment of creditworthiness, shall not exceed 15% of a bank's supervisory capital. In that case, Loan to Value Ratio shall not be more than 50%. The limit does not cover loans, if:

### *Loan coefficient*

1. A customer purchases an apartment / house / land plot;
2. On the moment of issuing a loan, a customer presents monetary participation to a bank; and
3. A bank verifies/monitors the purpose of a loan.

When issuing the loans, the market price of immovable property shall be evaluated adequately and a conservative LTV coefficient shall be used.

*Source: The Legislative Herald of Georgia, 7 May 2018*

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## **Important Amendments to the Rule on Consumer Protection for Financial Organizations**

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According to the amendments, a financial organizations shall:

### ***Annual effective interest rate***

- Inform a customer about an annual effective interest rate of a credit/deposit while offering such product to that customer personally. This requirement applies to offers including made through remote communication means such as, for example, internet banking, ATMs and short text messages. Before amendments, financial organizations were obliged to inform customers regarding annual effective interest rate of a product only if offers indicated any parameter determining the product price.

### ***Provision of essential information***

- Provide a customer with essential information on a product before execution of a contract through remote communication means and ensure that a customer will have a further access to this information.

### ***Transparent amortization***

- Conduct transparent amortization of loans, which implies the use of daily accrual principle in calculating accrued interests.

### ***Templates***

- Further, the amendments have specified templates of contract forms.

The amendments entered into force on 14 May 2018.

*Source: Source: The Legislative Herald of Georgia, 14 May 2018*

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## **Important Amendments to the Rule on Registration of a Microfinance Organization at the National Bank of Georgia**

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### ***MFO business name***

- Business name of an MFO registered by the National Bank of Georgia (NBG) shall include the term “Microfinance Organization” or its abbreviation “MFO”.

### ***Insolvency***

- An MFO is considered to be insolvent when its assets are not enough to cover its liabilities. The NBG may cancel MFO registration when it is insolvent.
- In order to register at the NBG, MFOs shall conduct the following additional actions:
  - Submit to the NBG additional information/documentation such as, business plans covering business strategy, budget plan and forecast of

**Additional  
information**

financial indicators for at least two years, introduction of the information technology; organizational structure and internal regulations; information about the company's shareholders, their financial condition, the source and origin of their income; information indicating citizenship of company directors or their residency of Georgia, etc. ;

**MFO capital**

➤ Have 1 000 000 GEL paid-in capital;

**MFO directors**

- Further, according to the amendments, one of the representatives of an MFO (who is registered at the Registry of Entrepreneurial and Non-Entrepreneurial (Non-Commercial) Legal Entities) shall stay in Georgia at least 14 calendar days during a calendar month.

The existing and registered MFOs shall be in compliance with the new requirements by 1 October 2018.

*Source: The Legislative Herald of Georgia, 5 April 2018*

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## **Regulations for Determining and Inspecting the Quality of Internet Service Delivery**

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**Quality of Internet  
Service Delivery**

- The National Communications Commission of Georgia issued new regulations for determining and inspecting the quality of internet service delivery on 10 May 2018. The regulations provide for indicators of quality of internet service, rules for inspection of internet quality, rights and liabilities of wholesale and retail internet service providers, and consumers. The regulations will enter into force from 15 August 2018. After that, the Commission will monitor internet quality during 24 hours.

*Source: The Legislative Herald of Georgia, 10 May 2018*

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## **Draft Regulations on Issuing Loans to Individuals**

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The NBG has published draft regulations on issuing loans to individuals. The regulations provide for new requirements for issuing loans, which will be mandatory for all loan issuer organizations operating under the NBG supervision. Generally, the regulations will apply to any type of loan/credit that is issued to an individual except for the loans/credits that are issued for the purposes of trade/entrepreneurial activities.

**Complete Assessment  
of Creditworthiness**

- All loan issuer organizations will be obliged to conduct complete creditworthiness assessment before issuing a loan/credit. For that purpose, a loan issuer organization shall obtain detailed information from the credit information bureau registered at the NBG and/or the Revenue Service.

**Immovable property  
as a security of a loan**

- In case a customer does not have current income, a loan issuer organization may issue a loan secured by the customer's immovable property, if:
  1. A customer owns more than one residential immovable property; and
  2. A residential immovable property is not used as security of a loan.
- In case of non-fulfillment of liabilities towards a loan issuer organization, a claim of that loan issuer organization shall be satisfied only through the actions envisaged by the legislation of Georgia in terms of the security (including proceeds from the sale of the security).

**Loan coefficients**

- The regulations define the Payment-to-Income Ratio (PTI) and Loan-to-Value Ratio (LTV):
  - PTI coefficient – the ratio of total monthly payables to monthly net income.
  - LTV coefficient – the ratio of loan(s)/credit(s) secured by immovable property to the market value of such security.
- The regulations prohibits issuance of loans/credits when PTI and LTV coefficients exceed the following indicators:

<b>Monthly net income (GEL)</b>	<b>PTI coefficient - maximum indicator</b>
<=500	15%
500-1,000	20%
1,000-2,000	25%
2,000-4,000	30%
4,000-8,000	35%
8,000-16,000	40%
>=16,000	50%

LTV coefficient - maximum indicator	75%
LTV coefficient in terms of immovable property that has a high liquidity - maximum indicator	85%

- It is prohibited to issue a loan/credit if a customer is required to pay only the accrued interest and loan principal or significant portion of loan principal is to be repaid at the end of the loan term. Loan principal should be repaid according to the reasonable payment schedule prepared based on the analysis of customer's income. This restriction does not apply to the following cases:

**Payment schedule**

- Grace period does not exceed 6 months in case of mortgage loans;
- Grace period does not exceed 3 months in case of other types of loans/credits.

***Loan period***

- Maximum loan period for mortgage loans shall be 20 years, for consumer loans secured by immovable property – 10 years and for other loans – 4 years.

According to the draft regulations, new requirements will enter into force from 1 January 2019.

*Source: The National Bank of Georgia, 7 May 2018*

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## **Let's talk**

For a deeper discussion of how this issue might affect your business, please contact us at PwC Georgia

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